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Porter, Robert Percival

The conflict over municipal
trading

Westminister

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THE
CONFLICT OVER MUNICIPAL TRADING.

LECTURE

DELIVERED BY

HON. ROBERT P. PORTER,

BEFORE THE

LONDON SCHOOL OF ECONOMICS AND
POLITICAL SCIENCE,

UNIVERSITY OF LONDON,

ON

FRIDAY, MARCH 13TH, 1903.

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THE CONFLICT OVER MUNICIPAL TRADING.

I SINCERELY hope that nothing I may say this evening will be construed as indicating any distrust or opposition on my part to British municipal institutions. I have always entertained a high appreciation of the capacity and devotion of your public-spirited local legislators to deal with the every-day management of municipal affairs. So long as they confined themselves to their legitimate functions there could be no controversy, nothing but unqualified praise. Now that these municipalities are transforming themselves into Unlimited Liability Corporations and embarking in business ventures, the conflict has begun, and will continue to attract public attention. It has reached America, and British municipal officials were last month taking part in a New York convention called to consider the subject. This important convention was held under the auspices of the New York Reform Club, and among the leading figures of that convention was a prominent Liverpool municipal official, who had journeyed especially across the Atlantic to enlighten us on how to manage municipal tramways. Unhappily, or happily, as the case may be, we have

to tramway (or street railway, as we term it there) in the United States owned and operated by a municipality. Hence our own experiences are not worth much. This official not only read a paper strongly favouring municipal trading, but took a prominent part in the debates. Papers setting forth the great success of municipal trading in Great Britain were also read by other well known English advocates of municipal socialism. These international interchanges of ideas are productive of good, and it is with this hope that I have consented to address you this evening, and not because I have anything particularly new or original to submit. We are very glad to welcome the friends of municipal trading to America, and they will always be sure of a respectful hearing, and may have my word for it that their motives will not be misunderstood or impugned. We recognise the value of your experiences, and perhaps I may add, without offence, experiments. Some of them we may be glad to adopt, and some, after due consideration, it may be prudent for us to avoid. Of course, you must remember that our conditions differ from yours. At the convention above referred to, held in New York, February 25th to 28th, Mr. Bellamy, of the Liverpool Municipal Tramways, thus described municipal management in Great Britain :—

“ In England, men of the keenest business acumen and of the highest standing are associated with municipalities through long periods

of years, from ten, twenty, thirty, even to forty, and are expert in all that pertains to municipal government, and with patriotic regard for everything that operates to the well-being of their principal towns ; and a desire to secure equally good results with those obtained in other towns leads them to devote a large amount of time, care, and energy to the discharge of their duties, which is astounding to the man familiar with it. With this devotion to municipal duty, aided by the assistance of the most carefully selected and highly trained permanent officials, there need be no fear as to the management of municipal undertakings.”

Of course, you will know if this picture is true or not. It does not conform altogether with some statements I have recently seen in that great and important organ of British public opinion, *The Times*. The testimony before the Select Committee of Parliament appointed to inquire into municipal trading hardly warrants such sweeping praise. The public utterances of your own Lord Chief Justice, of Lord Avebury, of Lord Claude Hamilton, of Mr. Vicary Gibbs, of Mr. Dixon H. Davies, of Sir Alexander Henderson, and many other men of standing and of experience in municipal affairs, in speaking of municipal management and tendencies in Great Britain, assume a more modest tone when dilating on your civic virtues. But I am perfectly willing to accept all that Mr. Bellamy claims for

the honesty, standing, devotion, motives, and good intentions of your municipal governors, "astounding" as it may seem to "the man familiar with it." These last are Mr. Bellamy's words, not mine. Having admitted all this, and having reluctantly added, we can, alas! point to nothing like it in America, I am surely justified in arguing the case purely on economic and business principles. I am not prepared, however, to admit that your local administrators have shown the "keenest acumen," either in business or economics.

With these few words by way of introduction, I will reverse the usual custom, and put the business end of my discourse first instead of last. This will get all the tabulated statements and statistical exhibits out of the way, before we attempt to find out how far accepted principles of political economy justify industrial speculation with the public funds. Of course I am well aware that, even though the business results may appear satisfactory, your sound political economists will urge that as no excuse for violating established principles of economics. But as "profits," and "relief of rates" are terms occasionally mentioned by municipal traders, I may, perhaps, be pardoned for instituting a search for the former, and for endeavouring to ascertain the extent to which the latter figures in municipal budgets. I will therefore begin in a truly practical American manner, by asking the question, "Does municipal trading pay?"

Does municipal trading pay? Of course, the contention of the theoretical municipal trader is that it pays, irrespective of anything so commonplace as "profits," and frankly he avows that "losses" and "deficits" have no terrors for him. In spite, however, of this haughty contempt of sound business principles, I notice that the alert advocate of municipal trading exhibits a decided weakness for referring to "profits in relief of rates," even though they are at times small, and not infrequently prove on close examination somewhat illusory. Local indebtedness in the United Kingdom has, indeed, been increasing with alarming rapidity, from less than one hundred millions sterling, five-and-twenty years ago, to nearly three hundred millions sterling, according to the latest available returns in 1900, and at present may roughly be reckoned at three hundred and thirty millions sterling—an increase during the period from four to ten pounds per head of population. English readers are familiar with the details of these local burdens, so it is not necessary to more than summarise them here. In this connection, however, the following Table is of interest. It shows the total net indebtedness of 137 American cities in 1880 and in 1902, together with the debt per head of population for each period.

The Table on next page, which I have compiled from figures sent me by the present Director of the United States Census, shows the tendency of local indebtedness in the United States. It will be

noted that only in one group, that of cities of from 30,000 to 50,000 population, has the per capita debt increased between 1880 and 1902. In all

—	1880.	1902.	Net per Capita Debt.	
			1880.	1902.
Total debt of—	£	£	£	£ s.
137 cities	107,999,544	191,755,098	11	9 0
Cities over 250,000 population	74,093,276	122,801,442	13	11 0
Cities of 100,000 to 250,000	14,660,640	29,978,044	10	9 0
Cities of 50,000 to 100,000	12,621,166	21,835,147	9	7 0
Cities of 30,000 to 50,000	6,624,465	17,140,463	7	7 5

other groups there has been a decline. Between 1880 and 1890, however, the decline was even more marked. Taking individual cities, we find in the period referred to the debt of New York increased from £16 in 1880 to £17 in 1902, and Boston from £15 in 1880 to £16 in 1902.

	1880.	1902.
	£	£ s.
Chicago declined from	5	to 4 0
Philadelphia declined from	13	„ 7 0
St. Louis „ „	13	„ 6 0
Baltimore „ „	17	„ 11 0
Cleveland „ „	8	„ 7 0
Buñalo „ „	10	„ 9 0
San Francisco „ „	3	„ 0 6
Cincinnati „ „	17	„ 16 0
Pittsburg „ „	18	„ 11 0
New Orleans „ „	16	„ 12 0
Detroit „ „	4	„ 3 0

and so on through a very long list. The general

tendency of debt in American cities during the twenty-two years when local burdens have thus been increasing so rapidly in Great Britain, has been a decided relative decrease—that is, a very decided decrease when compared with population and assessed value of property. This is not wholly attributable to economical management, nor to any special virtue in the management of municipal affairs which English administrators do not possess, but to the fact that we have happily up to the present time not plunged into municipal trading; together with the admirable check afforded by the State constitutional limitation of this class of indebtedness.

Returning to the English figures, there would seem to be no particular “relief of taxation” in debt, which is rapidly mounting higher and higher, and taxation, which is ever becoming more burdensome. Those who pay local taxes keenly realise the accumulating burdens; so that however much more the British ratepayer may get for his money, and however much better off he may appear to be in the way of assets, the cold fact remains that taxes are continually rising, and the burden of debt continually increasing. Until these myriad accounts were sifted, and the productive separated from the non-productive, it was impossible to form any conclusions as to how much municipal trading really did contribute to the relief of taxation. Two years ago, Sir Henry Fowler, with great impartiality, analysed the whole of the accounts of the local

authorities, and showed that in order to meet the interest and sinking fund instalments with a margin over, of about half of one per cent., the authorities had cut down the provision for depreciation to one-eighth of one per cent. It was even found that in many towns no allowance whatever was made for depreciation, the theory being advanced that the sinking fund varying from thirty to fifty years was sufficient to provide for plants that might require renewal—if the service was to be kept up-to-date—in ten years. Sir Henry Fowler's figures, however, unpalatable in certain quarters, have been generally accepted as the best available exhibit of the business end of municipal trading. In February, 1903, the Local Government Board issued by far the most complete return ever prepared, with reference to the earning capacity of the public money invested in productive industry.

This memorandum deals with 299 boroughs out of a total number of 317, as it appears that all municipal corporations in England and Wales, with the exception of 18, were in March, 1902, carrying on one or more reproductive undertakings. London, Scotland, and Ireland are excluded, so that, large as we shall find these investments of public monies to be, the aggregates do not represent the full extent of such undertakings by many millions sterling. The population of the 299 boroughs under consideration in 1901 exceeded thirteen millions, and the assessable value £55,000,000. The extent of these business ventures, including water-works,

gas-works, electrical supply, tramways, markets, harbours, and such other undertakings classified as productive, may best be realised by the following Table:—

	£
Capital outstanding	100,786,404
Annual payments of principal	1,264,544
Annual payments of interest	2,975,906
Income	13,040,711
Expenditure	12,622,430
Net profit	378,281

The three important questions which the above Table suggests are: What profit do these reproductive undertakings yield; is the sum set aside for depreciation sufficient to meet the modern demand for scrapping and renewal of plants; and are the sinking funds for the eventual liquidation of the debt adequate? Judged from the standpoint of sound business, an unequivocal negative answer must be given to all three of these questions. Less than a third of 1 per cent. is ridiculously low for profit, when all the fluctuations and risks of such vast industries are considered. What are we to think of less than £200,000 set aside for depreciation on a capital outlay exceeding £121,000,000. while the danger of thirty and fifty year sinking funds for business ventures which may require complete renewal of plant in twenty, and even ten years, would seem apparent to those familiar with such enterprises. That we may better ascertain the particular industries that have yielded profits, as against those whose gloomy pre-eminence seems to

be in the "loss" column, the following Table has been compiled from those returns :—

—	Capital Invested.	Capital Outstanding.	Profit.	Loss.
	£	£	£	£
Waterworks ...	56,943,016	49,556,717	90,128	—
Gasworks ...	24,028,116	18,497,587	394,825	—
Electricity ...	12,508,997	11,192,779	...	11,707
Tramways ...	9,751,153	8,572,924	99,318	—
Markets ...	6,181,080	3,926,671	83,782	—
Baths and Wash- houses ...	1,988,340	1,232,659	...	124,952
Burial Grounds ...	2,382,305	1,313,405	...	63,764
Workmen's Dwell- ings ...	1,253,592	1,090,340	...	26,978
Harbours, Docks, etc. ...	5,421,827	4,936,816	...	77,724
Other Undertak- ings ...	713,946	466,506	15,373	—
	121,172,372	100,786,404	683,426	305,145
Net profit	£378,281	...

From the above it seems that most of the profits are extracted out of gas, which means that the consumers of gas must bear more than their share. Electrical supply shows a loss, which is not surprising when one realises how it has been carried on by municipalities. The amount shown in these returns as invested in tramways represents about half the total expenditures of local authorities for these undertakings (returns for 1902 showing £18,910,467, with total of 885 miles); but, taken as they stand, the municipalities would show much greater profits if they adopt the leasing system, and took advantage of the greater skill and economy of private management. Large sums seem to be

annually frittered away on baths and wash-houses, burial-grounds, working-class dwelling-houses, and harbours and piers. In short, the study of the profit and loss accounts of these cities and towns reveals no evidence of good financial management.

It is not my intention to examine these profit and loss accounts in detail; nor would such an examination prove anything beyond the fact that, like all business speculations, some have proved successful and others unfortunate. The figures indicate that the judgment of municipal bodies is no more infallible than the judgment of companies or of individuals; and the difference is simply that, in the one case, those who conduct the enterprises are venturing their own capital, whereas in the case of municipalities the speculations are conducted with the money of the ratepayers, while those voting for these Unlimited Liability undertakings in no sense represent the majority of those who are called upon to foot the bills in case of losses. This hundred and twenty millions sterling of capital has been raised by means of private Acts of Parliament, by which statutory sanction is obtained for each undertaking. It is claimed by those who ought to know that these Bills do not often obtain the overwhelming support of the inhabitants of the towns which in theory they are supposed to carry. According to a valuable paper recently read before the Society of Arts by Mr. Dixon H. Davies, it is as a rule quite impossible to arouse the electorate generally to give proper attention to such matters. In a recent case

in Birmingham, Mr. Davies cites the fact that, though the question was vigorously canvassed, in the end only 15,742 voters were persuaded to go to the poll out of a total register of 102,712, about 15 per cent. As one of the results of this indifference, we have the following list of towns which show annual losses :—

	Loss.	£
Preston	34,935
Bristol	27,411
Newcastle	15,669
Cardiff	13,536
Torquay	8,166
Swansea	7,573
Hastings	6,363
Birmingham	4,715
Burslem	4,594
Devonport	4,576
Portsmouth	3,264
Ryde (I. W.)	3,246
Cheltenham	3,242
Hanley	2,920
Westham	2,512
Leamington Spa	2,452
Grimsby	2,389
Newark	2,326
Blackburn	2,320
Worthing	1,604

There is, of course, another side to the picture, and one which is particularly attractive to those who believe in the principle underlying this mixing up of business with the conduct of Government. On the profit side of this municipal ledger I find that Dover gained £4,000 odd; Ramsgate, over £3,000; Croydon, £7,416; Brighton, £3,600, and to mention a few of the more remarkable cases

only : Derby, £9,475 (mainly from water); Leicester, £36,793 (mainly from gas and water); Nottingham, £32,587 (mainly from gas); Birkenhead, £18,467 (from gas and water); Blackpool, £17,277 (from gas and trams); Bolton, £37,807 (from gas, water, electricity, trams and markets); Burnley, £13,733; Liverpool, £45,304 (from gas, water, markets and trams); Manchester, £61,463 (from gas, electricity, trams and markets); Southport, £13,650; Salford, £17,408 (exclusively from gas); Wigan, 12,103 (from gas); Hull, £17,802; Doncaster, £15,731 (from estates, including the race-course); Leeds, £35,099; Sheffield, £29,344; Darlington, £12,758 (from gas and water). Some instances occur of trams producing large profits: Sheffield nets £20,515 a year, Leeds, £20,876, Hull £13,091, and Liverpool £19,804. All of which may be put down as very satisfactory, and in a way showing that these affairs have been judiciously gone into and honestly managed—I cannot conscientiously say economically managed, for I do not believe states or municipalities can manage business of any sort as economically, and with the same amount of special ability, as that displayed by individuals or private companies. I am firmly of the opinion that, had these fortunate cities and towns driven a good bargain with private companies, they would have netted quite as much, if not more, annual profits with no responsibility, while the taxpayers of the less fortunate cities and towns which have sustained losses would likewise be receiving the annual rental value of their franchises.

There are, undoubtedly, explanations of these losses, some of which may be perfectly satisfactory; but, taken as a whole, they are apt to be put down to bad business management—probably to the lack of economical administration. The leasing system for these public utilities is more practical because, while it gives the municipality control over the service, it throws the responsibility of capital and administration on the shoulders of private companies. In the State of Massachusetts, the leasing system is carried on to such an extent that the street railways are simply tenants, as it were, during good behaviour. As a matter of fact, the town can revoke their way-leaves at any time, if the companies fail to fulfil their agreements. One would think it difficult to find capital for industries under these conditions, but such has not proved to be the case. The companies, of course, pay the local authorities a portion of their profits, and give the public an excellent service. For themselves they make a fair but not excessive profit, and the system seems to work smoothly. In the case of Boston, and more recently New York, the city has furnished the money for the subways, leasing the same to a private company at a rental which is, in fact, a higher rate of interest. Here advantage is taken of the city's facility for cheap borrowing, and the Companies' ability for economical administration.

In these agreements, of course, the fares, the speed, the hours for running, the seating capacity

and the headway, are all taken into account, agreed upon, and scheduled in the contract. Such agreements are within the sphere of local legislators, and the best men of the community can devote the necessary time to their preparation; whereas it is quite impossible for men of similar standing and ability to sit day after day on committees, engaged in the myriad details involved in the conduct of vast industrial enterprises. To this you add another danger—a serious danger it would be with us, and may be with you before you are through with this ambitious programme of municipal trading—namely, the increase of municipal employés, and in the case of housing schemes increase of municipal tenants. Every addition of this kind to the public service is a menace to individuality, and a stumbling-block to industrial freedom. In many quarters we hear disfranchisement talked of as a possible remedy for increasing armies of municipal tenants; but what political party would dare carry out such a drastic measure? Once we heard much about the abolition of the House of Lords, but that was to be done, you may remember, by a Resolution—which was never introduced. It is comparatively easy to start up official machinery of all kinds, but altogether another thing to disband it again: especially when, in order to do so, you must obtain the vote of the official and the influence of the machinery. The Lord Chief Justice of England, Lord Alverstone, in a recent speech before the Society of Arts, has told us something of the great influence exercised in

Parliament by the Town Clerks' Association, in all matters touching this important question. The tender solicitude with which this municipal octopus watches all legislation affecting municipal trading, and the skill with which it can concentrate its forces on short notice in aid of legislation favouring municipal trading and to defeat obnoxious measures, gives some idea of the cohesive power of self-interest: a self-interest which is dangerous enough when exerted from the outside in large combinations of capital, but which is far more disastrous to sound government when exercised from within by a strongly-welded organisation of ambitious officials, determined on increasing their patronage and extending their influence. To what extent the influence of this organisation has been exerted to retard electrical enterprise, both in traction and lighting and power distribution, it is impossible to say; but there is a general belief, founded upon some well-established facts, that England would have made much more headway in these industries had it not been for the deadening influence of organised officialdom. The history of arts, inventions, manufactures, of all ages and all countries, has demonstrated that industrial progress has invariably been the work of individual effort, and not of States or municipalities, or of organisations of officials. To encourage this effort should be the aim of sound government, but not to discourage and compete with it. The moment a State or municipal government starts a policy of acquisition, it discourages

those of its citizens engaged in the industry to be acquired, for sooner or later the individual knows he will be pushed to the wall. It has been so in every instance where nations have undertaken to work so-called monopolies. Look to-day at the condition of Australia, where State and municipal acquisition together have practically driven private enterprise from the Continent. And what has been accomplished? Are the Collectivists, and Progressivists, and Fabians satisfied with the condition which confronts them in that part of the world? In Australia the government seems to be in the hands of those whose interests as workers lie in a large and extravagant outlay on public works, whose knowledge of finances is limited, and who have little to fear in the event of collapse. The borrowings for these speculative purposes have been immense, and the liabilities have increased from less than 150,000,000 dols. in 1870 to upward of 1,075,000,000 dols. at the opening of 1903. The fact is, Australia has almost banished private enterprise from its shores, with results which, if the accounts in reliable English newspapers may be believed, threaten to be most disastrous to the Colonies. Of course, much of this money has been spent on so-called "productive works," but at a time when the staple commodities of Australia stood at double their present price. Now the people cannot afford to pay the same rates for the use of such utilities: the speculation has proved a bad one, and the burden of debt so great that there is talk of "repudiation."

Lord Avebury, in a recent address, shows that the great losses on the Australian railways is due to the employés being over-paid and over-numerous. The figures for 1901 and 1902 show a nett loss for the year of £1,075,000.

The defects of municipal trading, from an economic point of view, are so glaring and so absolutely at variance with all the teachings of eminent British economists, from Adam Smith down, that we may well exclaim with Mr. Gladstone, that political economy has been banished to Jupiter and Mars. That paternal interference with commercial and industrial freedom should find advocates in Russia, where the State manages all things, great and small, would not be a matter of surprise. That such heretical ideas should secure advocates in a country like our own, where we (including myself) believe in arranging custom tariffs to help our infant industries, might perhaps be viewed with equanimity. But it surpasses belief that Englishmen, who have been preaching industrial freedom for so long to the rest of the world, should by statutory power (for, remember, Parliament is responsible for each of these municipal industries) make every municipality in the land a competitive manufacturer, offering higher wages, less hours, and steadier employment to labour, than private enterprise in similar industries is able to do. Nor is this all. For, while municipal legislators throw out these inducements to labour and trade unions—let us hope not to secure their seats—they have been

prone to offer other attractions, such as cheap transportation and commodities to the public, or perhaps I should say, to that portion of the public using the particular utility. If these utilities were confined to undertakings in which all the community had an equal interest, or to the support of which those who pay the local rates could justly be called upon to defray the portion of those who do not pay rates, there might be less reason for complaint. This, however, is not the case. The whole system of local taxation is hopelessly complicated by municipal trading.

And, on this point—a point which I cannot emphasise too strongly—the Courts in America are coming to the aid of sound economic principles. In this connection, it may be interesting to note the fact, that within the last month the Supreme Court of Massachusetts has handed down four opinions adverse to the whole principle and policy of municipal trading. These opinions were called out by legislative inquiry. What was sought to be learned was, whether a city or town might, within its constitutional powers, buy and sell wood and coal for the benefit of its citizens. To the several forms in which this question was presented to the Court, the answer was an emphatic and unconditional negative. The Court was divided on the question whether, in a time of great emergency, a municipality might be justified in buying fuel at wholesale and selling it at retail, even though such trading might be outside of its constitutional rights.

Judge Loring, however, was not content to leave the matter open even to this extent, and filed an opinion to the effect that no emergency can make constitutional an unconstitutional act. The ground of the Court for deciding generally against the proposition of municipal fuel yards was, that the Constitution did not contemplate empowering municipalities *to raise money by taxation for commercial purposes*. The line of argument sustaining such an obvious interpretation of the fundamental law would seem to apply with equal force to the municipal ownership and operation of street railways, gas-works, and nearly all forms of public utilities. Water-works stand in a somewhat different classification, since, to guard against a monopoly of watersheds and available sources of supply, it is necessary to invest communities with rights and powers superior to those granted to individuals and private corporations, and to make rights secured by the latter, subject to condemnation when the public interest demands that they be acquired for public purposes. I have not yet been able to obtain the full text of these opinions, but the Supreme Court of Massachusetts is one of our strongest Courts, and its opinions are highly respected. Such an opinion will naturally have a bearing upon the principles involved on the question under discussion.

The principle involved here is one which, to my mind, is of more importance than the "vast potential profits" to be wrung out of the earnings of

private individuals, or of the necessity for "curbing the greed of the capitalist." It is more important than the so-called economic advantages of "cheap money," which municipalities are said to enjoy. It is even of more importance in the long run than the better and cheaper service, if it is possible, which I do not admit, for municipalities to give a more economical and better service than individual enterprise under like conditions. The raising of money by taxation for commercial purposes, according to the Supreme Court of Massachusetts, is illegal. According to sound economics it is illogical, and is bound to end in disaster. Municipal statesmen may be high-minded, and may intend to adhere to the straight and narrow way, but once they embark in speculative business they are outside municipal functions, and subject to business risks. And here, it is needless for me to say, is the fallacy of the "profits" argument. Not that the recent Local Government Board returns show that these profits—one-third of one per cent. on an investment of over one hundred and twenty million sterling—indicate the "keenest business acumen" on the part of local legislators. In a remarkably well written article entitled "Socialism, Sub Rosa," by J. A. R. Marriott, in the December *Fortnightly Review*, I find the following excellent paragraph on profits:—

"That, to secure high profits—except, of course, from monopolies—you must, as a rule,

take large risks. If the element of risk be absent or slight, competition will quite certainly come in and automatically reduce the profit to a minimum. But if the element of risk be present, in however small a degree, corporations, standing in a fiduciary relation to the ratepayers, have no right to embark upon the business. But, nakedly and broadly, it comes to this: all trading *must* be, in greater or less degree, speculative; and local authorities, by general admission have no business to speculate. From whence do they derive the wherewithal to speculate? Either directly from the rates, or else from loans borrowed upon the security of the rates. In either case it is the ratepayer, involved with or without his own consent in a speculative concern, who has to bear any loss which may be incurred."

The Massachusetts Supreme Court has given you the law, and Mr. Marriott gives you the political economy. I have recently read a little book entitled *Fabianism and the Empire*, edited by Mr. Bernard Shaw, in which the author gives as the two strongest reasons for throwing over private companies: the fact that a local authority borrows money at "a lower rate than any company can borrow on Stock Exchange," and "its members cannot share any profits, and have no interest except to secure their seats by supplying their constituents as well and as cheaply as possible." Assuming this

is true, we find that full advantage of the "cheaper money" claim may be derived by the municipality (as in the case of New York and Boston) lending its credit to the company, for which loan the company pays a bonus which, in the case of Boston, will in forty years give the city free of cost an important subway in going condition. This would seem to be more profitable for the municipality than assuming the entire risk itself. I am quite willing to admit with Mr. Shaw that the only interest local members have in these transactions is to "secure their seats," and, he might have added, to keep them. Herein we find the difficulty, for the scheme does not work out as Mr. Shaw, and Mr. Donald, and Mr. Webb, and the rest of the able advocates of the Fabian Society, would like to have it. The term, "as cheap as possible," by no means covers the question. It has been shown, without doubt, that many local legislators "secure their seats" by something akin to a promise to pay certain classes of their constituents as "dearly as possible" for the labour they perform. In some cases, higher wages, less output, and reduced hours, have been openly hinted at to secure seats in municipal bodies. Then, again, there is the increase of patronage; for if two officials can do the work of one, so much the better for the local legislator and so much more secure is his seat. It has been aptly said that the infinitely elastic revenue will provide for them, and more officialdom, state or local, means more government and less people. Nor does this municipal profit and loss account show

that the gentlemen, who we are assured have "no interest except to secure their seats," exhibited any old-fashioned honesty in regard to equality of taxation. In the United States, at least, our courts still believe in this; and not so long ago the Supreme Court of the United States declared void an income-tax scheme, involving three millions sterling in revenue, passed by both Houses of Congress and signed by the President, because it was unjust and did not apply alike to all taxpayers. May we not ask, as we look at this municipal balance-sheet, why the citizens who consume gas should be compelled to pay "as dearly as possible" for their commodity, that the profits may be given to the citizens who consume electricity, or to reduce the rent of the citizens who inhabit the workmen's dwellings, or to reduce the cost of burial? Why must the consumers of water and the renters of markets, and those who use the tramways, pay their extra shillings and pennies for the benefit of those who patronise public baths and wash-houses, and docks and harbours, and an infinite variety of other undertakings in which they may not be in the least interested? No wonder that the advocates of municipal trading exclaim, "Oh, bother the profits!" Of course they do not care to talk about profits, because on this rock the municipal trading vessel is bound to go to pieces. I am not saying that some of these utilities are not sufficiently for the common welfare to warrant direct taxation; but we are, according to Mr. Davies, considering a much more

ambitious programme. One of the first aims is to get the housing of all people into the hands of local authorities as soon as possible. The balance-sheet I am now dealing with gives no idea of the cost, even up to date, of these undertakings. London and Glasgow are neither included in these Tables. Private and public enterprise, in and around London, has already expended ten millions sterling in housing schemes, and much, very much more, must be done.

I have not yet seen Miss Octavia Hill's objections to municipal housing schemes controverted. Miss Hill objects on three grounds:—

(1) "The work will be done expensively. No body like the London County Council can be an economical one. The cost must be met in one form or another. Why should we prefer to pay in rates, rather than in rent? The mode of payment by rates will press heavily, being inexorable and not elastic.

(2) "The London County Council, which ought to be the supervising authority, will itself be pecuniarily interested in the houses to be supervised.

(3) "The electorate will be, in a large measure, composed of tenants of the body to be elected."

In commenting on the above, Mr. Marriott says—

"The last two points seem to me to be especially suggestive. Who is to keep the

'slum' landlords up to the mark, when the supervising authorities are themselves 'slum' landlords? This is not visionary; but that suggested by (three) is immediate. If the houses are let at 'commercial' rents, little harm will be done to anyone; but also little good. If they are let at less than a 'commercial' rent, at once a privileged body of tenants is created. And that way danger lurks."

If private enterprise is to be pushed to the wall, or even cooled off, in these model dwelling schemes, a tremendous financial responsibility will be thrown upon the public purse. Important and well-conducted as are the London County Council's house-enterprises in the outskirts of London, with proper encouragement the same work could have been far better done by private enterprise. Cheap homes for persons of moderate means are springing up in all the districts surrounding our large American cities, and are reached easily and cheaply by the splendid systems of electric street and inter-urban railways which radiate in all directions from the centres of population. These are stupendous ventures for public bodies to undertake, and Mr. Davies may well ask if "the people have counted the cost."

Mr. Vicary Gibbs, another important authority on this question, has compiled the following list of industries, for which powers are being applied for by various authorities:—

"The manufacture of steam engines, dynamo, gas, and electric fittings, and paving materials. Cold-air storage, ice manufacture, milk-supply, concert rooms, hotels, Turkish baths, and cycle tracks. Tramcar factories have been established, and even a brass foundry to make fittings. Municipal telephones are being largely undertaken, and a system of universal municipal fire insurance is being discussed. Municipal banks and the issue of municipal bank notes, municipal pawnbroking, municipal bakeries, and even municipal public-houses, have all been seriously suggested. Municipal collieries have been under discussion in the North of England, and the Bradford Corporation has actually proposed to supply coal for retail consumption."

This is the programme Mr. Shaw must have in mind when he says: "If any candidate at the election shows the slightest weakness on this subject (municipal trading), he should be voted against without regard to party. And the opportunity should be seized by the next Government to enlarge the powers of local bodies, until they are able to force private enterprise into its proper sphere, which is not the exploitation of common needs and ascertained processes, but the sphere of invention, initiative, and the creation of new needs and new industries." If these extraordinary sentiments represent Fabianism, there is only one place I know of in which they may be found in full force, and that is in the Russian Empire. The

carrying out of such a policy in countries like Great Britain or the United States would be nothing short of National and industrial destruction. Individual endeavour is to be forcibly robbed of the fruits of its labours, and the State and municipality is to take charge of the exploitation of all common needs and ascertained processes. Having been thus deprived of that which is rightly their own, private enterprise is to be bidden to go invent new processes, initiate new methods, create fresh wants, and found new industries, so that in the due course of time, State or Local Government, with their enlarged powers, may seize or appropriate them. Here we have a plan of universal expropriation mapped out, which would do credit to Mr. Witte, "the maker of modern Russia." Like the British municipal trader, Mr. Witte has invented a system by which the State or municipality, as the case may be, marches to wealth; the people or ratepayers, as the case may be, to ruin; and the minister or town clerk, as the case may be, to omnipotence. The aim of the policy of Mr. Witte is precisely that of the advocate of municipal socialism, namely, the creation of an omnipotent State owner, or sole disposer of all sources of wealth. "A State," says a recent writer, "with the civil inhabitants merged in officialdom, dependent upon the Government for their daily bread, and servants of an autocracy henceforth safe for ever." In Russia, millions have been spent in building up a vast fabric of State and municipal ownership, and

naturally, the patronage is becoming the strongest pillar of irresponsible rule. The State in Russia has been truthfully characterised as a trading corporation first, and an organ of government only as a subordinate function. This is precisely what municipal trading is rapidly making of English cities and towns. In Russia the power moulding these schemes is vested in the Finance Minister, who is gradually absorbing all industries, and reducing the producing population to the position of managers of State departments, civil servants, and State labourers. The pretext for this is identically the same as that urged by the English socialist, namely, public beneficence. The result there, as in England, is the ruin of the private traders who pay the taxes. In Great Britain, the power moulding these schemes is vested in those who expect to benefit by increased wages, shorter hours, and additional patronage. In the one case it emanates from the top down; in the other case from the bottom up, but the result is the same. I am not sure, after reading the following from an admirable article in the *Fortnightly Review* for January, 1903, but Russia is, after all, the municipal traders' paradise, and that St. Petersburg and Moscow, not Glasgow and Spring Gardens, are his ideals:—

"A subtler means of concentrating the wealth of the people, and destroying private enterprise, is now in full operation, bearing a face so philanthropical and progressive that

it enlists the sympathy even of those who dread the straight-waistcoats of Mr. Witte as the ruin of the country. While in England learned economists write in the *Times* on the ills and evils of municipal socialism, solemnly discussing as a new and difficult problem the municipalisation of tramways and gasworks, in Russia everything, from the bakery to the publishing trade, has been municipalised. The State is content with carrying on the transport of the Empire, working mines, mismanaging steelworks, and selling vodka, but the local governments admit no limit to their enterprise at all. The 'Duma' and the 'Zemstvo' sell agricultural machinery, seed, horses, cattle, sewing machines, text books, medicines and magic lanterns; they manage theatres, deliver lectures, translate Milton and Molière, and expurgate Dostoyeffsky for the benefit of the masses. While the City of London is wondering whether it will ever own its tramways, the city of Tiflis competes with the retail butchers, and sells sewing machines on the instalment system to impecunious sempstresses."

The State and municipal machines in Russia are engaged in absorbing the wealth of the people, seizing industries, and destroying individual enterprise and endeavour; to quote Mr. Bernard Shaw, "forcing private enterprise into its proper sphere." The figures under consideration for England show that all this is bad business, and it certainly is contrary to economic principles, as taught by British economists.

**END OF
TITLE**